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Worksheets

Module Three: Worksheet 1- What to do When You Lose



- The Powerpoint worksheet below can help you learn how to manage and deal with trading losses more effectively
- You should complete this at the end of each day or each week, depending on your individual trading style and needs
- Use it to help you deal with trading losses professionally, without getting discouraged.



What to Do When You Lose - A Worksheet to Help

Let's face it - nobody wants to lose any money when they trade stocks. Unfortunately, this fear keeps people from taking trading losses when they're small and letting them get too big.

That common amateur approach either ties up capital in a "dog pound" of losing stocks that you need to hold onto for months or years to get your money back from (if ever), or permanent, large losses.

Learning to recognize and take smart stops is a crucial key to successful trading. I might take 2 or 3 1/16-point losses before I get the bottom of a stock, from which I then get a 3/8 - 1/2 point gain from, for example (in scalping).

Sometimes, though, especially when people are new to trading, they may make mistakes and end up taking individual losses of over \$500, which is harder to deal with. Since that \$500 loss is really \$1000 worth of buying power, with margin, it's tough to trade your way out of that loss.

This worksheet is designed to help you write down some of your thoughts, your plans and ideas for dealing with trading losses successfully.

Small losses/stops are what I call "winning losses" (oxymoron?); large losses are what I'd call "losing losses". Taking small stops is fine; You can afford to take many more small losses vs. several big losses, right? Timing your entries to take small losses of no more than 2-3 spreads (usually 1/4 point max for stocks priced at less than \$50), ever, is a hallmark of the successful Nasdaq stock day trader.

Let's look at how to deal with them professionally.

You should use this worksheet (or a similar one you make yourself) to help you analyze and deal with trading losses effectively. This is a "mental/emotions" - handling type of trading loss worksheet vs. the analytical/ trading stop-loss mechanics type of worksheets found in the earlier Modules 1 and 2.

Notes on Trading Losses:

1. Frequently, when traders make a losing trade they feel a sense of **loss of control**, and tend to take things out on others, or on themselves through unhealthy habits. Regaining one's control over the situation, and of a sense of commitment to keep on trying, is essential to become a successful trader.
2. Don't beat yourself up; **it's a very non-logical market** where events happen that make no sense. Don't try to impose logic on a non-logical market. If there was an easy logical science to trading, everyone would do it and nobody would go to day jobs (and the companies whose stock we're trading would suffer (^_^)).
3. The best science we can develop to improve consistent trading profits is what we're presenting in DTU, all the tips and do's and don't's of trading stocks. Even then, the traders' emotions are their biggest enemy, as they cause losing trade behaviors. Surrounding oneself with a trading plan, following the rules of the game, and making a commitment to **improve your ability to stick with your trading plan** is important.

Directions:

1. **Print out a copy of the worksheet below and fill it out on the next 3 days that you suffer trading losses, particularly if they are large (over-\$500) losses.** (hopefully you took small stops, but you may have an occasional swing trade w/overnight gap down and end up closing a losing position at a loss).

Dealing with Trading Losses Worksheet

Goal: Improve my ability to mentally handle the disappointment and frustration of trading losses in a helpful, professional way



Stock That I Lost Money On: _____
 Dollar Amount That I Lost: \$ _____
 Fraction/Points that I Lost: _____
 Number of Shares Traded: _____

List 3 Words That Describe How You Felt When You Hit "Sell", Knowing that You Were Taking a Loss:

Trade Analysis:

Why did you buy this stock when you did (circle one or more):

- TA: Saw a Breakthrough on Volume
- TA: It was Bouncing off a support level
- TA: Other Chart Pattern
- News/Earnings Release Play
- I Just Thought it was going up
- Dumb Chatroom Call
- Level 2/Time and Sales Momentum

Why did you sell this stock when you did? (circle one or more):

- hit my predetermined stop
- started tanking and I panicked out
- had been holding it for days or weeks and I got tired of watching it not go up
- Other reason:

Lessons Learned:

In retrospect, how would you have managed this trade differently then you did, overall?

What TA or other solid indicators could you have used differently?

Did any emotions cloud your judgement during the trade? If so, what did you learn about yourself and your trade management skills?

My Personal Commitment to Changing How I Trade Similar Situations Next Time:

This is the important part of the worksheet. Give some thought to these, and print/tape a reminder of them on one of your monitors.

Based on my trading losses and trade analysis, what are THREE THINGS I RESOLVE TO DO DIFFERENTLY FROM NOW ON, EVERY TIME I TRADE A STOCK:

1)

2)

3)



Module Three

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Module Three: Worksheet 2- Finding Your Daytrading Discipline



- The Powerpoint worksheet below is designed to help you develop faster, more solid trading discipline
- It takes months if not years to develop iron trading discipline. The key is to **stay in the game long enough to survive with most of your capital intact, until you can "turn around" and become profitable.**
- Discipline, Profit, Success, they are all related.

Let's look at trading from a military perspective for a minute. You're at war with the other guys, the "open market" out there. You are fast and correct or slow and wrong - which will you be?

Finding your discipline is tough! It starts from within, a commitment to your mission of profitability, and your unwavering expectation that your trades will be right more often than they are wrong.

But there's a lot more to it than that, from a traders' personality standpoint. Many people lead undisciplined lives, they are procrastinators, they do not maintain control over their careers and their results, and end up blaming others vs. taking personal responsibility for improving their living situations. *(I chose to be financially independent, have a great family and live on a tropical island by the age of 36. I did it. I'm not special. I'm just highly disciplined and work very hard. For myself & my family, not for another man's profits)*

That's all it takes in trading, too.

In helping traders from around the world, one thing I find is that most are woefully underprepared to wage war in their trading activities, least of all daytrading, the toughest type of trading of all to master consistently.

As we've seen, gaining a disciplined trading approach requires the **heavy** use of metrics and actions. That is to say, you have to be able to make rapid data-based trading decisions consistently. Having predetermined exit stops is crucial, as are approximate profit targets.

Finding your discipline is a process. I find that documenting things helps me, I have brief 40-pt size printed trading reminders ("Small Stops Keeps You In The Game" etc) and encouraging notes around my workspace.

Having discipline in your life also means having fun in other areas as well. Both are needed for balance. **Look at your discipline from a military standpoint: you're on a mission in hostile territory and you want to capture profits.** You have to watch out for the land mines and enemy soldiers that dot the trading landscape. Be committed to achieving the mission. Focus. Do It.

You should use this worksheet (or a similar one you make yourself) to help you go through the trading thought process needed to achieve better trading discipline.

Notes on Discipline:

1. New traders need to have fences, or reminders, around their trading activities to help them make better trade decisions, in a faster, more timely way. One thing you can do is have your software alert you to breakouts or bottom bounces, you should also experiment with mechanical stops and trailing stops while in a trade.
2. **Lack of discipline is a career-killer in trading**, as in any serious business endeavor. Making an effort to develop the proper discipline needed for success can help you in many areas of your personal and professional life. Committing to deadlines, going the extra mile within a tight time frame, even something simple like being more decisive when order lunch or dinner at your favorite local restaurant, will be of help to you as a trader.
3. The best tool I found when I got started was to write down, on a pad of paper next to my keyboard, the stock ticker I was considering buying, the number of shares, and both the stop loss and profit target I would have for each of my trades. This might be like: SPLS 500 Buy at 20 1/8 Stop 19 7/8 Target 20 1/2-20 7-8. Something like that helps - so when you see the stock price falling you are also looking at your stop loss and have a finger on the mouse ready to click Sell when the trade goes against you. The profit target I use to sell right under whole (or major fraction) resistance, esp. if I see a wall of sellers on level 2 after a nice 3/8 to 5/8 point run up in the stock. It all helps. Discipline & Logic is your friend. Emotions are the enemy of traders. Be Spock. Completely Logical.

Directions:

1. Print out a copy of the worksheet below and complete it once every few months, or whenever you feel the need to gain better discipline in a trade.

Finding Your Trading Discipline Worksheet		Goal: Improve my trading discipline.	When's your Stop on AMZN, Soldier?
PTDI - Personal Trading Discipline Inventory: Place a check mark by each of the following that you want to improve upon: ☐ I need to focus on only a few stocks instead of watching too many. ☐ My trade entries are okay, but I am not sure when to sell and either take a large loss or a too-small profit. ☐ My trade exits are okay, but I enter my trades too late or at the wrong time; I don't get as much profit out of my trades as I should. ☐ Speed is a problem for me, sometimes I hesitate and lose profits instead of acting immediately. ☐ I need to improve my discipline and knowledge of the stock market in general; I need to understand more. ☐ My trading system needs to have more discipline checks built into it that I use, like trading alerts and stops.			
Disciplined Trading Environment: List 5 things that you will put near your monitor/trade area to help you improve your discipline: 1. 2. 3. 4. 5.		My Personal Attributes of a Disciplined Trader: In the space below, take 6 minutes to describe what kind of trader you want to become during the next six months. Use words or phrases that best describe what kind of discipline, skill and professionalism you want to start developing that will help you make consistent profits by trading stocks:	

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Module Three: Worksheet 3- Developing a Daily Trading Matrix



- The Powerpoint worksheet below is designed to help you identify your trading habits, patterns, strengths and weaknesses.
- **Do you feel like you're fighting back and forth with the market, like the cartoon on the left?**
- One of the best ways you can learn to 'break out' of a choppy trading style (which only makes your broker rich), is to learn to capitalize on trading patterns and habits you have with our Daily Trading Matrix (below).



Your Mental Trading Patterns: Make them Work for You

All of us trade using our habits and skills that we've developed over time.

The amazing lack of discipline and market knowledge I see in new traders who are trading (and mostly losing) real money makes me wonder if they're truly committed to trading for consistent profits, or are just gambling.

"If you keep doing what you've always done, you'll keep getting what you've always gotten", applies to trading as well. Maintain and enforce the skills that make you a good trader, and find a way to isolate and reduce those habits that cause you to lose money.

One of the areas that is overlooked in many books is the need to be able to quantify and reduce unhelpful mental trading habits. Telling traders to "have discipline" and "take small stops" is fine, but usually not enough.

This worksheet is designed to help you recognize behavior patterns in your trading that are both successful and unsuccessful, and reshape your trading style to one that is more profitable.

As I always say, we go for consistency in this game. I'd much rather be a trader that can get 80% of my trades right on 1/2 point trades than 20% on 1-point 'home run' trades. The sign of a professional, in trading like all careers, is someone who can consistently post the numbers that show success. Like golfing, or bowling, or going on sales calls, or playing billiards, it's the consistency that we seek to achieve.

The tools I've developed are all here to help you gradually learn how to trade consistently, and profitably.

You should use this worksheet (or a similar one you make yourself) to help you learn to improve your mental trading habits.

Directions:

1. Print out a copy of the worksheet below and complete it daily for one week out of every month (example: do it each day for the first week of every month), or whenever you feel the need to understand your mental trading patterns more thoroughly.

Daily Trading Matrix - The Mental Side		Goal: Identify my successful and unsuccessful trading behaviors and patterns	
Instructions: complete the following matrix each day when you're finished trading for the day. Unlike our earlier technical trade analysis worksheets and activities, this one is designed to help identify and reduce the impact of "emotional trading".			
Circle the word(s) that best describe your mental frame of mind:			
Today's Mental Preparation	Calm	Ready	Frantic
Today's Technical Preparation	I knew support & resistance levels	I am not prepared yet	I've defined breakouts, gaps and bounces
Today's Financial Preparation	I was ready to go, cash and looking to trade	I was in a bunch of losing positions	My broker kept emailing me with margin calls
Readiness To Enter Trades	"Scared to trade"	"Eager to trade"	"Uncertain to trade"
Readiness to Exit Trades	I didn't use stops	Stops were identified	I didn't know where to place my stops
Sensitivity to Market Conditions	I entered and exited based on composite and sector index direction	I ignored the market indexes	I knew the current reports and other key economic data that were due today
Hopeful, Greedy, Fearful	My trading today was highly emotional	My trading had very few emotions in it	Today, I was Spock.
Now, compare your day's Profit and Loss with other days for which you've completed this Daily Trading Matrix. Look for patterns that were clustered together on profitable days, and identify and try to reduce patterns that led to losses. Take market conditions into account too, of course... did you do well on an up day and limit your trading on down days?			Today's Profit/Loss: \$ _____

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Module Three: Worksheet 3- Increasing and Decreasing Trade Sizes



- The Powerpoint worksheet below is designed to help you learn the important skill of Position Sizing. This is when you add and subtract to your position in a single stock based on profit targets and chart patterns.
- You may, for example, buy 400 CPQ at 22 1/2.... then add another 100 at 24 1/8 in an uptrend, then sell half (200 shares) later at 25 7/8, and the other 200 at 26 5/8.
- Scaling in and out of positions like this is a very important skill to learn. You should not always be trading in "all-or-none" type trades, you want to adjust your total position size based on price action and chart patterns.
- You do this to lock in a percentage of profits at a certain price and "try for more" with the rest. It's a professional variation of using trailing stops...every pro daytrader and market maker trades like this, you should too.
- While not a 'mental' trading technique, I thought it might be good to add it in here since it involves a change in the way most beginning traders consider managing their positions.

Increasing and Decreasing Trade Sizes

Adding to a position does not mean "averaging down", although that may be one technique that

The technique is to:

people are familiar with. As opposed to that (generally losing) method, we want to instead look at ways to dynamically change our total position size based on price action and chart patterns.

Professional daytraders trade in total lots of 1000 shares, generally speaking, and may scale up from an initial position of 300 to add to a winning position. As I mentioned in an earlier lesson, you should not add to a losing position, and should not add to an uptrending position in gradually larger sizes.

Instead, you want to play the probabilities. Let's look at a few examples:

- Buy/add smaller share sizes in winning (uptrending for long) positions, til you reach a top or resistance level, then fade out of the position either all at once or gradually, with the biggest number of shares added at the top. **Example:** I buy 300 DCLK at 46 1/2...buyers come in and I add another 100 at 48 1/4, and add a final 100 at 49. I then sell all of them at 49 3/4 around 10:15 am, or, sell 300 at 49 3/4 and use a trailing stop for the other 200, eg sell them if it drops to 49 1/2. Total profit: \$1225

This worksheet is designed to help you add and manage trade size position scaling more successfully. Yes this technique costs a bit more in commissions, but is well worth it when you learn how to manage it professionally.

You should use this worksheet (or a similar one you make yourself) to help you learn to manage your trades by using the technique of "position sizing".

Directions:

1. Print out a copy of the worksheet below and complete it whenever you are contemplating initiating a new large position (either long or short).

Increasing & Decreasing Trade Sizes

Goal: Identify my successful and unsuccessful trading behaviors and patterns

Use this worksheet to help you decide when to add or subtract from a current position you have initiated.

INITIAL BUY OR SELL DECISION POINT:
fill in the blanks

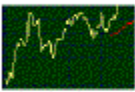
TICKER: _____

INITIAL POSITION SIZE: _____

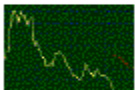


SECONDARY BUY OR SELL DECISION POINT
(after you've initiated a position)
circle which one you'll do...

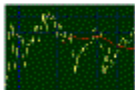
BUY more?
(add to current position)



SELL?
(stop out)



or, No Change



FINAL SELL (or cover) DECISION POINT
(as you're exiting the position)

SELL THE ENTIRE POSITION?

SELL PART OF THE POSITION w/trailing stop for balance

Example:
I've just bought 600 SPLS at 16 3/4 (initial size)

The stock has increased in price to 17 1/8 and has an uptrending wedge (bullish) pattern, so I add another 400 at 17 1/8

SPLS gets more buyers, we're up in the high 17's. I know SPLS has a 1-day intraday range usually, and the nasdaq composite has just turned downwards and my L2/T&S shows lots of sellers at 18. So, I sell the entire lot for a 1 1/8 (\$1125) profit.

Activities

Module Three: Activity 1 - "Thinking Like a Professional Trader"

- **Professional traders look at their work** as any career business person does, with a sense of **responsibility** towards producing results, of meeting the **expectations** of their boss, of being **competent** and effective in what they do. So should you.
- **It helps to imagine having a "pit boss" looking over your shoulder as your trade.** Is he going to yell at you for entering that last trade you entered, or say "looks good, let's see where it goes?"
- What would an imaginary traders' manager say as you enter or exit each of your trades? If he's a coach-type he might ask, "okay, why did you buy there?", "was that the best place to sell?" "good effort, you got a good piece of the momentum on that last one!" etc. Be your own "pit boss" and critique each of your trades with a practiced, professional eye.
- In turning professional with my trading, I found that over time I evolved to "not being surprised" at anything that happens for a stock. Instead, **I became opportunistic and faster** in what I did. If I see a stock gap down, I'll check my realtime news, the 5-day, 10-day and 6 month chart for 100- and 200-day MA and chart pattern etc, all in the space of 10-20 seconds. **Then I make a trade decision:** should I buy, short, or wait? Then I execute it.
- Developing a professional traders' eyes for the market takes **hundreds of hours of practice** in market watching. **There is no other way.** Watch realtime tick charts and time & sales 'tapes' over the months ahead to gain the experience in seeing how the market behaves.
- It does you absolutely no good to just look at chat rooms and stock-picking sites alone. Sorry if that's not what you wanted to hear. Those resources can certainly help accelerate your learning, if you choose wisely, and that is good. But **to trade for a living you need to do it on your own.** No CNBC, no chat rooms, no stock pick of the day sites. It takes time.
- Trading stocks is a profession that takes a minimum of months, and usually at least a year or two, to become good at. It is difficult work and I have never said otherwise. It can be worth it, if you are persistent and willing to be strong at doing what it takes to succeed.
- **This activity should help you learn to evaluate trade opportunities and look at the market like a professional trader does. Remember, the vast majority of would-be daytraders overtrade and "blow out" (lose) their accounts in a short time. Do not become a statistic. Learn to slowly do this successfully. Commit to it.**

Pros Respond Differently than Amateurs Do:

Situation:

Pro Traders' Action:

Amateur/Losing Traders' Action:

1. **Divergence exists in the market, semis (\$SOX) are stronger than internets (\$GIN) today.**

1. Ignore/turns off charts for all 'nets, puts up a few more semiconductor charts to look for trade opportunities (takes 1-2 minutes).

1. Still watches the same group of stocks, including a 'favorite internet' they like to trade. May try to buy the 'net on a dip, even though the sector is weak that day..

2. **A trade is going against him (or her).**

2. Exits immediately, waiting for a better re-entry price.

2. Waits, hopes for a turnaround. Position goes so far against them they hold on to it, putting another mutt in the "dog pound" of stocks they stay long in as a 'investor' vs. trader.

3. **Trade is going with him (or her).**

3. Takes some fast profit, sells the position off a bit at a time, small shares at small gain, more shares near the top until position is completely liquidated by the time the stock starts to weaken before lunch.

3. Sells the whole position for a tiny profit, even though there's still buying strength in the stock. Does not partially fade out of a 500- or 1000-share position 200 or 300 shares at a time.

4. It's lunchtime.	4. Goes eats lunch, or quits for the day if it's been a profitable day. Golfs/shops.	4. Watches a chat room, trying to make low-percentage lunchtime trades, nibbling down capital with shakes and wiggles. Brokers love this trader.
5. Time and sales shows blocks going off as stock price rises.	5. Pro trader bids in between the spread, adds to position based on T&S momentum, fades the position out when blocks start going off in opposite direction.	5. Can't read time & sales for their stock, since they're using a free cheap service. Doesn't invest in proper tools, using a slow discount online broker. Gives money to the professionals.

Activity to Help you Trade Like a Pro Does:



Get out a piece of paper, and work on developing 2-3 specific trading actions for each of these key areas. They are designed to help you think (and trade) like a professional trader does.

Technical Analysis: Chart Patterns

- After looking at hundreds of charts, identify one chart pattern you want to be especially "on the lookout for" that can be profitable for you to trade. (Examples, opening gaps, volume reversals, bouncing off support or breaking through resistance on volume).
- Choose 1-2 technical indicators you want to use closely. I recommend starting with volume and moving averages.

Market Sector Scan & Analysis

- Identify 3 different market sectors you want to keep a close eye on, and on what exchanges they are traded (eg Nasdaq semis and internets, beaten-down dow stocks that are bouncing, retailers etc).
- For each sector, identify both the "generals" (eg YHOO EBAY AMZN AOL for internets, INTC AMAT KLAC for semis)
- Activity: during the next trading week, I want you to identify Which sector was strongest for that day. Was it the semis? The nets? Software? Biotechs?
- Finally, practice paper- and realtime trading stocks within the sector leader for the day you're trading.

Trading Someone Else's Money

- A pro trades with client's money in a fund account, and he or she is accountable to the company's trading %age expectations. Pretend you are trading for a friend's account, and you need to generate capital quickly through trading profits. Would you really have entered that last trade if it was someone else's money? Why or why not?
- In a sense, you are already doing this, as the money you earn or lose will probably impact the lives of others close to you.
- Think of yourself as Goldman-Sachs "Head Equities Trader"-in training. What do you need to do now to become head trader for this company? How will you start trading differently?

Daily Trading Expectations

- Setting arbitrary 'profit targets' should only be done on a "daily average" basis, eg don't say "I want to earn exactly \$500 a day each day", say instead "for the month of April I want to earn a profit of \$10K, which averages \$500/day.". Why?
- On strong days you should trade much more than on weak or choppy days, depending on your trade style. If you're a scalper, you want choppy days, If you're a shorter, you want sell/weak days.
- Also set trading process goals (eg "I will trade 100% of the time I see a high-percentage trade opportunity).

Activities



Module Three: Activity 2 - "Becoming Focused on the Trade"

- It is essential that you narrowly focus your attention completely on the trade that you are playing at any given point in time.
- Trying to juggle 30 stocks, participating in a chatroom, surfing financial sites and listening to CNBC all at the same time you're in a trade is a disaster. Adding noise from family/friends/other sources makes it worse.
- The only thing you really need to be focused on is time and sales, after you've confirmed a chart pattern that looks like a good setup....use level 2 to time your exact entries/exits.
- If you're in a professional trading room, make sure you're around traders who are consistently winning...a few winning traders w/80% losers is Not a place you want to be. That includes chatrooms too.
- Let's look at how to get yourself in the frame of mind to trade successfully, how to build a concentrated frame of mind for "microtrading" that's needed to win.
- Think of the whole market as a cloudy day, your goal is to have a laser-like beam of sunlight that penetrates the clouds to allow you to profitably enter and exit. You can't pay attention to the scenery, you must close in on a trade like an eagle swooping out of the sky to nail its prey...absolute concentration is a must.
- Use earplugs if they help. Set your monitors against a wall, so there's no distraction (I close the blinds to my ocean view here in hawaii when afternoon trading so I don't lose concentration).
- Look for things in your trading environment to help you become the most concentrated you've ever been.
- Think back to studying for final exams in college...you need to have that library/study-hall type mentality, with 100% focus. Don't trade til you can achieve it.
- Try doing each of the four tips below, and check your trading progress.

Setting Up Your Trading Software

- A cluttered PC monitor makes it tough to trade - make sure to have at least your trade execution window always in the same place on your desktop (and get two monitors).
- Make sure to narrow the focus of how many different software programs you have running at the same time - too many can slow your pc down and make it difficult to concentrate on the trade.
- Experiment with different font sizes, different fonts, and color combinations. Make it interesting to yourself and easy to read and understand.
- Keep your software's extra functions to a minimum, don't use all the bells and whistles unless they really help you trade. Analyze your winning trades.
- Try not to shuffle back and forth between too many windows each day - it's tiring (I remember back when I only used 1 monitor, what a headache!) and takes your energy away from trading.
- Check to update the latest version of all your software. For example, 16% of the thousands of people who visit us here at DTU are still using IE4.0, for example. Stay on par with your competition, and get the best and latest software possible.

Clearing Out Distractions

Place a check mark next to each of these potential sources of distractions for you during your trading activities:

- _____ Television (eg CNBC) and/or radio on
- _____ Family members and/or pets making noise
- _____ Environmental noise, eg street traffic, neighbors
- _____ Internet distraction: you surf around too much during trading hours
- _____ Financial information distraction: you are looking at too many 'inputs'
- _____ Cluttered work area - you have disorganized stacks of stuff laying about
- _____ Mental distraction #1: you obsess over losing money and are fearful
- _____ Mental distraction #2: you focus on the financials (how much can I make?) vs the trade mechanics and chart setup patterns
- _____ Other (specify): _____

Personal Action Plan: On a pad of paper, write down 1-2 things you will do to clear away and reduce each of the distractions you checked in the area above.

Critical: give yourself a timetable & deadline for implementing each action.

Finding a Mental 'Anchor' Statement

Finding a "safe harbor" in your mind, as a trader, helps you achieve mental discipline and security. There's two steps to this activity.

Step #1: Write down 5-6 words or short phrases that you associate with fun, pleasurable, rewarding activities (note I'm excluding 'vices' like eating junk food etc here). I want you to get in the mental state of being comfortable, of achieving personal happiness. What are these words, for you?

- .
- .
- .
- .
- .
- .
- .

Step #2: This can be fun - combine the words and phrases you just came up with into 1 or 2 sentences, a "mental anchor statement" that describes the state of mind you want to achieve in your trading activities.

At the end of each day, your goal is to feel this way. You might want to include technical success phrases ("I traded the best I could and kept small stops", "I took consistent profits" etc).

My anchor statement(s) are:

- 1.

2.

Committing to a Focused, Successful Trade

Finally, let's look at some concentration tips to help you make a solid personal commitment to yourself and your family to make successful trading a way of life, not a surprise.

#1. Practice some of the first steps of meditation: a few [slow, deep breaths](#) will help each morning

#2. [Focus on one success symbol or sign with your eyes shut](#), for a few minutes. I like to create a visual image of a green P&L statement, eg the number [P&L +\\$1100](#) in green is a motivator for me, my end of day target.

#3. [See stock charts in your imagination](#), with your stops carefully taken along with your profits. A successful trader takes small stops, and larger profits. Both are critical.

#4. [Tell yourself the types of things you need to win](#): I need to check my chart patterns, only carefully pick the high-percentage setups and sit out the "iffy" - questionable trades, especially longs in a down market, for example.

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Module Three: Activity 3- "Using Your "Lessons Learned" in Trading

- One technique that I've found useful in building consistent trading skills is to build safeguards in my trading style to alert me to low-potential situations that I should not be trading in.
- Another important tip is to be sure to capitalize on all that you've learned in each trading week, so that you increase your profits steadily over time. If you only do well in bull markets, then you might want to look at this area as well. It's important to be able to trade in all 3 market environments: bear, bull, and 'choppy'.
- Let's say, for example, that one of your 'lessons learned' is that it's a good trading strategy to buy a certain stock back once it's broken above a key resistance level and has consolidated for at least 8 minutes. The challenge becomes, how do you now standardize this knowledge in your trading approach?
- Repeating the same trading errors over and over again is also costly, it is in your best interest as a trader to avoid these mistakes using a set of trading rules and guidelines that you use as automatically as you drive a car.
 - You know to brake at red lights (eg take small stops).
 - You know to accelerate when there's space in front of you (add to winning positions).
 - You know to take curves slowly (eg avoid trading in lunchtime or other low-volume times)
 - You know to give pedestrians the right-of-way (eg don't trade against our "4

- "horsemen" strong market makers (SBSH GSCO MLCO MSCO).
- etc.

- So, this activity is designed to help you use all the things that you've learned via trial and error over the months to build a more successful trading method that works for you, with the stocks you trade and the time horizon that you trade them in.
- It is an individual process for each trader, it is our hope that these guidelines will help you to build more consistency and success into your personal trading style.



You must learn how to make more consistent, profitable trades that are booked repeatedly. An occasional win that's offset by many losses is not acceptable.

The most important goal is to preserve your capital - to do this you need to identify your trading mistakes and find a way to avoid making them again.

Of course, you want to also figure out "what you did right" about winning trades that wasn't due to chance - what were your effective trade entry and exit rules that help you win consistently?

Activities to Help You Build Trading Consistency



- Make it fun, first of all - **pretend you're a market maker at Goldman Sachs** trading an account with other people's money. How would your trading be different? Would you take the same chances?
- Although it's not exciting, it's very important that you: **Keep a brief daily trading journal**, with your trade entries, stop losses, and profits for each day's trading.
- In a place that you can see throughout the trading day, keep a list of several **trading guidelines in large, bold print** where you can see them. As your knowledge grows, adapt these trading rules to be more specific. Eg, I have "Tight Stops - No Exceptions - 2 spreads/1/4 point is your max stop loss" still posted.
- **At the end of each week, make a list of** "Things I did consistently" and "Things I did not do consistently". Never mind if they were right or wrong, for now - just make a list of things about your trades that were both consistent and inconsistent, and work on improving.
- If it helps, have fun rewards/punishments for being a consistent, disciplined trader vs. inconsistency. **If you traded according to your trade guidelines, even if your profits were only modest, then reward yourself.** If you broke all your rules and took a larger-than-necessary loss, look for ways to change it the next time you're in a similar trade.
- **Make a firm commitment to yourself to** "become a consistent trader". Look at yourself as a professional. If it helps, dress up a bit before the trading day starts and pretend you're at work with the head trader of GSCO watching over your shoulder. What would this professional say to you during your trades to help you win? Remember, winners are consistent and profitable.

Activities to Help You Avoid Mistakes: Your Costly "Lessons Learned"



Let's all agree to learn from our mistakes so we hopefully don't repeat them, okay? Here's the technique I've found successful to help trim trading losses to an absolute minimum.

Remember, the cost of commissions and a small 1/4-point loss is fine compared to commissions plus a 1-point or more loss, right?

Here's what to do:

1. First, print out your last month's trading account history, available from your broker's site.
2. You will annotate 1 month's trade history with 2 felt tip markers, one green and one red.
3. Use a green pen to connect the profitable trades, and a red pen for the losses. Write the dollar figures in, as I have in the example below:

	Symbol	Shares	Trans. Type	Price
	DCLK	400	Buy	42 1/2
	RNWK	300	Buy	38 3/8
	ATHM	1000	Buy	18 1/2
+900	DCLK	400	Sell	44 3/4
	RNWK	300	Sell	39 1/2
-250	ATHM	1000	Sell	18 1/4

Okay, now you need to find out Why each was profitable and/or a loss...

Simply make a list with columns for the symbol, your net profit/loss and why:

STOCK:	Profit/Loss	REASON:
DCLK	+900	Bought at bottom end of trading range, sold at resistance
ATHM.....	- 250	Got stopped out (small stop), chart pattern reversal
RNWK.....	+ 339	Momentum play, Time & Sales was all buyers when I entered

This was a very useful tool for me, each day I would print out my trade records and attach a reason to the profits/losses I made to help me learn from my trading experiences. It's an "A" type activity.

Activities to Help You Repeat Successes: Your Profitable "Lessons Learned"



The activity above will help you improve on both areas, minimizing your mistakes and maximizing your profitable trades. Let's look at another set of ideas for helping you to repeat these successes. Remember, you cannot improve what you do not understand. That's why all these activities and worksheets are helpful, they are a guide to build your professionalism and trading skills.

Time of Trade Buy/Sell	Carefully note when your winning trades are entered and exited, on general. I used a graph and found my winners were usually entered around 10:30 +/- 15 minutes.
The Stocks You Trade	Take a close look at the types of stocks you've traded profitably vs the ones you've lost in. Avoid the cheap oversold stocks, buy quality stocks on dips.
Number of Shares Traded	For your winning trades, see if there's a pattern to the number of shares you're trading, as well as your trade length of time (eg scalp, overnight hold etc)
Trading Equipment/Broker	Trying to scalp daytrade with a 56k dialup connection is bad. Make sure to adjust your trading style to your capital and equipment capabilities. Is swing trading ok?
Reasons for Buying & Selling	Ok, you're looking at your profitable trades - see what patterns emerge regarding your buy/sell signals - was it a chart pattern? Time of day? Time & sales? List it out.
Position Sizing: Scaling In/Out	We covered this in a previous lesson - find out for yourself if you're good at this technique. I find I like to sell half at a good profit target, and use a trailing stop for the balance. Find what works for you.

Activities

Module Three: Activity 4 - "When All Else Fails...."

- Remember the market tank in April and early May 2000? Many traders were wiped out. Many others suffered huge losses. It didn't need to be that way.
- There are many things that cause frustration during trading: bad fills, wrong trades, market unpredictability, and financial losses.
- Frequently, traders will overtrade to compensate for trading losses, making the situation even worse.
- This activity is designed to help you if you feel like you're "down so low the only way left is up", so to speak.
- Most successful traders have had their ups and downs - this is true of successful people in all walks of life. Becoming a winning trader takes persistence, and above all else, caution.
- Instead of giving up, or trading even riskier plays in an attempt to "win back" trading losses, let's take a step-by-step approach to gradually get back to even, then on to success.
- When all else fails, you should increase your efforts, but in entirely different ways than you've taken before. Think about golfing, for instance - if you keep slicing the ball, you may change your stance, your grip, your clubs, and the course you play on, all to no avail. It takes a change in your swing dynamics.
- The analogy to trading is that you need to isolate the things that are keeping you from becoming successful, and experiment until you find a better combination of trading strategies.
- Maybe you're watching the market too much....there is no reason to watch the market all day long, it can get boring after years....instead, scale back your market watching time from 9:30am to 11:30am each day - no more. Maybe you're playing the wrong stocks, maybe you need to learn more about technical analysis and chart patterns. I don't know - it's an individual journey for each stock trader.
- Let's do some activities to help recover and get back from the edge:

**When all Else Fails..Or,
"What To Do When You Feel Like Giving Up"**



Papertrading to 80%

- Stop losing real money for awhile - regroup and modify your trading strategy.
- Practice on paper as closely as you can to the 'real thing'. Get the free cybercorp.com simulators or just a pad of paper and pencil and go for it.
- Try many different trading techniques if the one you're using is inconsistent or provides poor profits.
- Practice trading "on paper" until you get to

Trade Listed NYSE Stocks

- NYSE stocks are much less volatile and have narrower trading ranges than Nasdaq stocks, in general.
- Try trading NYSE stocks for awhile, there's plenty out there and they're all good for trading: CPQ T HET MGG JNJ PG BBY F A MRK YUM etc.
- Trading NYSE stocks gives you a good opportunity to improve your "tape reading" skills, as you will be watching time and

where you're roughly 80% correct, consistently, before going back into the market with real money.

sales, not a level 2 window, for trading NYSE stock.

- Try trading NYSE stocks over a 2-4 day time horizon as well...you may be surprised at the improvement in your trading profits.

Talk with Other Traders

- Sharing trading stories with other traders in person, by phone and by email is a great way to build a sense of community and understanding.
- Try to find a local group of traders to meet with informally once a month or so. (You might start with DTUSA, www.worldwidetraders.com, for a start).
- Get a group started in your local area. Put a free ad in the local business section of your newspaper's "Current Events" column, eg "Daytraders of Portland" meeting at the Bistro Cafe, 12:00-1pm, call (123) 456-7890 for directions. Get involved - start a networking group. (or, call a few local brokers and ask)..
- In addition to sharing trading strategies, talking with others, even via email, provides you with additional energy to trade day after day.

Go From Day to Swing Trading

- If day trading ain't your thing, then don't fight it. You might want to try "swing trading", short-term momentum trades lasting several days or so.
- Swing trading is less stressful, and you can use wider stops (with a higher profit target) than we do in daytrading, although you incur greater risks as well.
- If you're consistently losing at daytrades, then take a break, learn a lot more, papertrade, and then try swing trading with small shares (typically 100-300).
- Swing trades let you enhance your chart pattern/TA skills as well.
- You can use a cheap online broker and no level 2 quotes if you're swing trading, and still profit very well.
- The main thing is to experiment until you find a trading style that's comfortable and profitable for you. Expect this to take some time. Use small stops so it doesn't cost a lot.

Take a Break



- Take a few weeks off from the market if you're tired, frustrated and beaten.
- When you're frustrated you're likely to be more stressed and less able to trade successfully.
- Put the odds in your favor by sitting out a few weeks of the market - don't worry, it'll always be there.
- During your "time off" from the market, resist the urge to look at financial websites or watch CNBC. Take a real, 100% Break from the market.
- When you're ready to come back to the market, take stock of what you plan to do differently this time - what changes are you making in your stop loss strategy, and how are you going to change the stocks, share sizes, and time intervals of your trades? Experimentation is key to success.
- It's difficult to take a break from the market.
- It's difficult to take a break from the market, especially if it consumes all your time. Look at a break as a 'winter break' from school, where you can spend more time with family and friends, or simply by yourself in a new hobby or something you enjoy. (I like watching movies and golfing).

Read More Books

- We should all be continuously learning from other traders who have identified profitable trading strategies. Apply the authors' ideas that make sense and blend them with your own trading experience.
- Many books have been written about the financial markets and about trading skills - read as many as you have time for and highlight them as you did college texts. Ideas that are particularly useful should be clipped from the books and put in a "Master Trading Strategies" notebook. I find this is helpful.
- Although many books are "fluff", there are many good ones out there as well - focus on the technical analysis and chart pattern ones the most.
- Also visit more websites - although most are junk there are a few excellent ones, such as clearstation.com and equis.com clearstation.com and equis.com
- You must value the hunger for new trading skills in order to succeed at this game. Do not search for magic, instead, search for disciplined, practical, simple trading techniques that generate profits most of the time for people.